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THE HOUSING AMENDMENTS OF 1956

IN the world of housing and home finance these days, attention is riveted on Capitol Hill in Washington, where Congress is putting the final touches on the Housing Amendments of 1956. While the measure is not yet in final form - one version has passed the Senate and another is being hammered out in the House - its main outlines by now are fairly well defined. From them, two conclusions emerge. First, in several key areas of mortgage lending, the rules are slated to be altered significantly. Moreover, the impending changes seem designed not merely to expand the role of Government, but also to set new high-water marks in easy credit.

While the precise amount has not yet been fixed, FHA, as is customary, will be granted an increase in its insurance authorization. Best estimates currently are that its general fund will be upped $3 billion above the sum of insurance in force and commitments outstanding on July 1, to approximately $26 billion. In addition, the agency, under its new Title VIII program - military housing - would be permitted to insure $3 billion in loans, instead of the current $1. 3 billion. All told, the various FHA authorizations for the coming fiscal year undoubtedly will add up to $30 billion or more.

The proposed legislation would make some noteworthy changes in the Government's existing home mortgage programs. Among other things, it would extend and liberalize FHA's home repair and modernization loans (Title I); relax the terms governing the agency's various multifamily housing programs, including cooperative, urban renewal and displaced family housing; step up sharply the number of public housing units; and revise the operations of the Federal National Mortgage Association (FNMA). In addition, the Amendments break fresh ground in mortgage lending, notably with respect to shelter for elderly people.

While some of these provisions are more or less routine, others deserve the closest scrutiny of the lending community. Let's examine several of the Amendments more closely. Title I is a case in point. Under the pending legislation, the maximum loan would be raised from $2, 500 to $3, 500 and the maturity extended from 3 to 5 years. This marked easing of terms, as the General Accounting Office pointed out to the Senate committee, is likely to lead to more serious collection problems in what are, after all, unsecured notes. FHA, incidentally, currently has more than $60 million of defaulted Title I obligations on its books.

Apart from this consideration, however, the lawmakers have shown a striking tendency to whittle down the return available to lenders. Under the Senate version, for example, the maximum discount rate which may be charged would be cut from 5% to 4% on all amounts above $2,500. The House reportedly wants to cut the rate to 4% at the $1,500 mark. Whichever figure ultimately is adopted, such moves indicate a stiffening attitude in Congress toward private credit. One of the immediate consequences is apt to be an acceleration in the exodus of lenders out of Title I and into their own self-insured home modernization loan programs.

Again, some of the revisions proposed in FHA sales and rental housing insurance, particularly under Section 221, are noteworthy. Though written into the law 2 years ago, this program, which is aimed at spurring the construction of low-cost dwellings for families displaced in slum clearance, to date has been largely ignored. To stimulate it, Congress now plans, first, to increase the maximum mortgage from $7,600 to $8,000 per unit (and from $8,600 to $10,000 in high-cost areas). More strikingly, the ratio of loan to value would be hiked from 95% to 100% (in the case of sales housing, the buyer would be required to make a downpayment of $200, which might include settlement costs). Finally, the term of the mortgage would be lengthened from 30 to 40 years, a provision sought in 1954 but struck out by the lawmakers.

Both GAO and private lenders are firmly opposed to such a major relaxation. Speaking for the latter, Carrol M. Shanks, president of the Prudential Insurance Company of America, pointed out several cogent reasons why. Said he: "If we assume a $7,000 mortgage at 4½%, amortizable in 40 years, then at the end of 5 years only $353 would be paid in amortization; at the end of 10 years only $794; and at the end of 20 years only $2,038, with $4,962 of the initial loan still outstanding." This rate of payoff is so slow that, in Mr. Shanks's view, the physical deterioration and obsolescence of the property undoubtedly would exceed the amortization. Thereby, the investor would be exposed to a risk "which no lender operating on sound principles would be able to assume."

Similar unsound terms have been prescribed for a brand new FHA program, to be known as Section 229, which is designed to provide shelter for elderly persons, i. e., those over 60. In addition, various other forms of assistance for America's senior citizens are in the works. For example, a special program of 15,000 public housing units per year, intended solely for the elderly, would be launched under the Amendments; further, with respect to sales housing, a third party (either a person or a corporation satisfactory to FHA) would be permitted to furnish the downpayment and co-sign the mortgage. Finally, the Federal National Mortgage Association, in order to bulwark this effort, has been authorized to establish a revolving fund of $50 million with which to buy loans on housing projects for the aged.

Fannie Mae's operations, incidentally, which have come under heavy Congressional fire in recent months, would be affected in other ways. For example, mortgages covering property in Alaska, Guam or Hawaii henceforth will be eligible

for FNMA purchase under its special assistance function without regard to the present $15,000 ceiling, thus restoring conditions which prevailed prior to 1954. More important, the agency's practice of charging discounts up to 2% on special assistance liens, which has been criticized frequently, would be ended, and such paper acquired at par. Finally, the Amendments also would modify slightly the agency's private secondary market operation. Under existing law, sellers must subscribe to FNMA stock to the extent of 3% of the unpaid balance of the mortgages submitted; this requirement would be changed to 2% (or not less than 1%), a provision which the Administration has endorsed.

These changes in Fannie Mae procedure, it is evident, scarcely represent progress. They inevitably will put the agency more deeply in the business of supporting dubious mortgages - or, as one critic put it, buying the worst loans at the best prices - and could well tend to delay its transition from Federal to private hands, a shift which, at the current rate of activity, might well have occurred in another 5 or 6 years.

Nonetheless, if nothing worse comes out of Congress, the agency and its supporters can count themselves lucky. Other bills, notably one sponsored by Sen. Fulbright (D., Ark.), would have compelled FNMA to act as a stabilizer of mortgage prices, thereby in all likelihood damaging its secondary market operations beyond repair. Such measures, in turn, probably would have constituted a breach of faith with its growing list of stockholders. As of June 8, 1956, nearly $6.5 million worth of FNMA common stock was outstanding. According to the National Association of Securities Dealers, several over-the-counter firms in New York City now are making an active market in this stock, which, on a recent date, was quoted at 50-52. Since January, FNMA has declared a monthly dividend of 17¢ per share, payable every quarter, a rate which is expected to continue.

Whatever else the 1956 housing measure may accomplish, it is apt to provide a further spur to the construction of housing for the military, under the so-called Title VIII. This program, which was written into law a year ago, already has witnessed considerable activity. As of mid-April some 139 projects, totaling nearly 61,000 units, were in various stages of development, and early in June the House Armed Services Committee approved an Army plan for nearly 23,000 more.

Several Title VIII mortgages, totaling more than $20 million and covering units at Abilene Air Force Base, Eglin Air Force Base, and Fort Bragg, already have been placed with investors. In at least one case, a price of 102 for the 4%, 25-year loan reportedly was paid.

Title VIII loans technically are mortgages. However, as the firm of Pringle-Hurd and Co., Inc. (which is quite active in the field), has pointed out, at the end of the construction loan period, the long-term lender acquires, by assignment from the construction loan lender, an investment that in virtually every respect except name is a U. S. Government bond. Monthly mortgage payments, both as to prin-

cipal and interest, are guaranteed by the U. S. Government, acting through the Secretaries of the various armed services.

The new Amendments will affect Title VIII in several ways. For one thing, as noted before, they more than double the insurance authorization to $3 billion, and raise from $9 million to $18 million the maximum monthly outlay of the military for amortization. They also extend the termination date for 3 years. What's more, to make the program more attractive to builders, they raise the maximum unit cost permitted from an average of $13,500 to $15,000 for any single project.

During the hearings, in view of the military's known tendency to overbuy and overbuild, several groups expressed misgivings over the possible impact of Title VIII projects on existing real estate values. To keep this risk at a minimum, the Senate has been at some pains to underscore FHA's responsibility in overseeing Title VIII. Before any project can be approved, the Secretary of Defense, with the approval of the FHA Commissioner, must find that adequate housing is not otherwise available "at reasonable rentals, within reasonable commuting distance." In addition, if FHA differs with the Department of Defense over the feasibility of a proposed project, Congress must be advised of that fact.

As to the state of the mortgage market, since March it has grown far tighter than this observer (or, be it noted, most lenders) expected. Tightness continues to prevail. As a consequence, perhaps for the first time in a decade, the volume of mortgage lending this year is likely to show some decline. In the first 4 months of 1956, according to the Federal Home Loan Bank Board, nonfarm mortgage recordings of $20,000 or less totaled $8.6 billion, down some 1½% from the $8.8 billion of the corresponding months of 1955. In April alone, the year-to-year decline was better than 3%. Only commercial banks and individuals this year have been more active in the mortgage market. Other lenders, notably the savings and loan associations and the insurance companies, have been placing somewhat less money in home loans.